

Guide to Income Generation for Governing Bodies of Sport

GUIDE TO INCOME GENERATION FOR GOVERNING BODIES OF SPORT

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Foreword

Over the last few years a number of governing bodies have made real progress towards increasing the amount of income they generate for themselves, and I have seen several examples of good and innovative practice. But those examples have tended to be isolated examples, and there are still too many governing bodies that are too reliant on government funding.

In the long run the existence of this kind of 'welfare' relationship benefits no one. Financial dependence reduces both governing bodies' operational autonomy and the Sports Councils' ability to invest in the delivery, as opposed to the administration, of sport.

One of the goals of the Modernisation Programme was to encourage governing bodies to become more financially independent. Part of the work towards that goal has been to help governing bodies to realise their untapped commercial potential; this Guide is one element of that support.

We have not tried to provide all the answers to every possible question about generating commercial income in this one document. Instead we have brought together a range of contributors, with knowledge and experience of particular areas, to share their insights with governing bodies. We hope this Guide will act as a catalyst for governing bodies to go out and develop and implement their own commercial strategies.

I should like to express our gratitude to the individuals and organisations that kindly contributed to this Guide.

A handwritten signature in black ink that reads "Sue Campbell". The script is cursive and fluid, with the first letters of "Sue" and "Campbell" being capitalized and prominent.

Sue Campbell, Chair, UK Sport

Developing a Commercial Strategy by *Goodform Ltd*

Why bother? What's the point?

Why should governing bodies bother with a commercial strategy? Well, let's start with following three reasons:

1. They need the money (no governing body can rely, with certainty, on public funding forever!)
2. They need the money (and it helps them become more independent!)
3. They need the money (and they've got the opportunity - the brands, the support, the products and the markets).

There's an important rider, right at the beginning: we recognise that governing bodies are not in business to make money. Indeed, they are not really 'in business' at all. The basic purpose of any governing body is to run their sport; to develop, manage and administer it in order to increase participation, develop talent, and deliver top-level success. Unlike companies, governing bodies don't have shareholders. They aren't judged against the cash they generate, or the financial assets that they create. Governing bodies are judged on the medals that they win, on the numbers of people playing their sport, on the numbers of qualified coaches they have, etc, etc.

However, governing bodies *do* have stakeholders. They include their participants – young and old – their administrators, officials, coaches and fans... that great wide world of support that carries on the love of sport down the generations. Few of these stakeholders read their governing bodies accounts. Instead what they're concerned with are facilities, events, coaching and programmes for developing their sport. And every governing body's major priorities are in those areas.

But all of these good sporting things require funding. The role of a commercial strategy is to set out the ways that the governing body is going to generate the income that will support and feed those sporting priorities. Commercial income can supply the extra investment that makes the vital difference to the growth and health of a sport, and that keeps the stakeholders happy.

What do Governing Bodies have to do?

This Guide aims to give governing bodies practical advice on how to prepare a commercial strategy. In this first edition we cover:

- how to get started;
- how to identify markets & products;
- how to draw up a Sales & Marketing Plan;

- how to maximise income from a key activity like membership;
- how to exploit their intangible assets;
- how to set up an effective merchandising operation;
- how to go about securing sponsorship;
- how to go about selling television rights;
- the role that charitable trusts can play in generating income;
- targets and performance indicators.

Future editions of the Guide will also tackle:

- the exploitation of tangible assets;
- events;
- trading.

It's a lot to cover, but we will make it as easy as possible. There are phone numbers to ring if you get stuck, or need some guidance on particular issues.

How to get started...

Get yourself a clean sheet of paper and pen that works... No, we're joking, though you will need to start making notes soon! There are three initial stages to work through, and each is important.

We think it's a helpful first exercise to start thinking about *Markets & Products*, because that's how commercial people are trained to think. (There's a Table below to help you.)

Next, you have to take a critical look at what you are doing now. We cover in this chapter the commercial areas to assess in your sport. *Goodform* call this initial stage the *Commercial Audit*. We believe there are usually 10 key areas of commercial income, for any sport, and these are set out below with the questions you need to ask.

Then, thirdly, you need to decide on your *future Sales & Marketing Plans*. To assist you with those, we look in detail later in this Guide at how you can plan for two key areas – membership, and sponsorship. And we show you the recommended structure for your Plans.

Markets & Products

In the table below, we set out the most likely markets for any sports governing bodies to target and the products they can be thinking of selling to them. There is a third column with suggestions for the sales channels that can be used.

MARKETS (i.e. groups of people or places to whom you can sell things)	PRODUCTS (i.e. the “things” or services you can sell)	CHANNELS (i.e. the routes to market)
Schools	Posters Coaching and learning aids, events Equipment Kit Books DVDs Accessories	Schools (i.e. go direct) Counties Internet Conferences Libraries Direct mail Regional Sports Boards
Further Education	(Items listed above plus governing body membership and related products)	Colleges (i.e. go direct) Counties Educational events/conferences Internet Libraries Direct mail Regional Sports Boards
Clubs	Governing body membership Books Coaching aids (e.g. DVDs) Equipment Health products Handbook/Yearbook Information services	Counties Internet Roadshows Events Media Direct mail Regional Sports Boards
Coaches (all levels)	Books DVDs Courses Badges/certificates Events Equipment Governing body membership	Direct mail Events Courses Internet Education sector Media Regional Sports Boards
Halls and Leisure Centres	Governing body membership Badges/certificates Events Books/DVDs/course Health products Equipment Information services	Internet Direct mail Course Media Roadshows Regional Sports Boards
Gifts	Governing body membership in a gift box Merchandise Governing body healthy living items	Internet (esp. e-marketing via gift sites) Retailers Events Direct mail
Families	Membership gift boxes Governing body branded equipment Event DVDS Health products	Internet Direct mail Media Events Libraries
“Healthy Living” (i.e. people taking up sport for health reasons)	Special governing body branded items such as pedometers, heart rate monitors	Health Service (e.g. GPs surgeries) Internet Events

MARKETS (i.e. groups of people or places to whom you can sell things)	PRODUCTS (i.e. the “things” or services you can sell)	CHANNELS (i.e. the routes to market)
	Fitness & health guides based on the specific sport	Conference

Using this table as a guide, we recommend that governing bodies undertake a full product range review. They should ask:

“Do we know these markets?”

“Have we the products mentioned?” “And if not, can we develop them?”

“How can we use the sales & marketing channels identified?”

The Goodform Commercial Audit of Key Income Generators

Here’s the hard bit! This Audit was developed by *Goodform* to help any governing body work through its commercial performance and decide how and where more money can be generated. There are usually ten key areas of income generation; each is discussed in brief below. For each of these sources of income governing bodies need to: assess their current income and costs; make sure their efforts are being rewarded properly, and there is a return on their investment; look hard at present methods, to see if costs can be saved; and check the sales & marketing effort and ask how this can be improved to increase sales and income.

1. Membership Schemes

Membership has usually been a source of valuable income for most governing body, but many sports’ membership schemes look more like tax collection mechanisms.

In today’s commercial world, members should be treated as customers. Give them excellent customer service, and value for money, and they will spread the word... both encouraging others to join and spending more with the governing body themselves. Membership can be, for most sports, the biggest income stream. It also helps develop and marshal a governing bodies overall support, around the country.

Again, there are key questions:

- *“What does my scheme do?”*
- *“Are members really getting a product, with value for money?”*
- *“Is customer service good enough?”* (For example, can members phone or mail you and get a prompt and correct answer?)
- *“Is the price realistic?”* (For a decent membership product, we would suggest that governing bodies charge between £25 and £50 pa)

- “Are the costs around 20% of the price charged, per member?”

As membership is such a key income area for governing bodies, we’ve dedicated section 2 of this Guide to it.

2. Television & Rights

We all know there is some big money here, but regrettably not for most domestic governing bodies, who can’t actually get their sport on TV (and even if they could, would have to pay the substantial production costs). This is a huge pity, because TV is important not just for income; it helps to “spread the word” better than any other medium.

So what can governing bodies do? There’s no rocket science here, but we suggest:

- watching developments in the industry closely; there’s more channels and services (terrestrial, satellite, cable, PPV, Freeview etc) who are going to need “products” to show, and sport provides drama & excitement cheaply and effectively
- working hard and continuously at PR
- develop winners, the heroes & heroines everyone wants to watch
- stage more events, and promote and present them effectively.

When they get TV opportunities, governing bodies must be commercially minded. Key aims from any deal are for the governing body to receive the viewing figures (which should be broken down into audience categories and international areas) and the brand sightings (for sponsors). Governing bodies need to research the appropriate level of fees for their TV rights, and the international governing body is usually the best source of reliable and comparative data. They need to distinguish carefully between the various rights that apply – e.g. Internet, mobile phones, as well as TV in its different regions.

Robert Charles, Controller of Sport at *Five*, explains what broadcasters are seeking from partnerships with sport in section 6.

3. Sponsorship

We live in hard times when it comes to signing sponsors. The overall market spend is down, and competition is tough. Even governing bodies whose competitions are televised are struggling. In order to attract them it’s vital that governing bodies understand what sponsors are looking for:

- a partnership in which they receive specific rights/benefits in return for their money/resources, and in which the governing body actively helps the sponsor to sell his product(s)

- a database of potential customers
- excellent account management, with care & attention to their aims and needs
- clear & defined responsibilities for both parties, set out in a contract.

Governing bodies must ask: “

- *“Am I giving my current sponsors what they want?”*
- *“Are they getting value for their investment?”*
- *“Are we managing the relationship effectively?”*
- *“If not, how can I put things right?”*

To seek new sponsors, governing bodies need to develop effective presentations which cover the points above by reference to the “product” the sport offers. In these presentations give careful thought to the product value in today’s marketplace.

Caroline Rees, Sponsorship Manager at *Nationwide*, gives a sponsor’s perspective in section 5.

4. Ticketing

This is, potentially, another important source of income, whether from facilities that governing bodies own or manage, or from their major sporting events. It’s a classic Supply v Demand puzzle.

Governing bodies need to think hard about ticketing as a product, which means: where and how tickets are sold; how they’re priced; what they look like; whether agents are involved, etc.

Some questions to consider are:

- *“Are you maximising revenue? Is the pricing right, taking account of demand?”*
- *“Is the event being sold as widely as possible, using all possible channels (especially these days the Internet)?”*
- *“Are you marketing season tickets effectively?”*
- *“Is there a mechanism for resales?”*
- *“Have you an efficient software system; one that feeds back lots of information into your database, and gives you all the stats you and your partners need?”*

5. Corporate Hospitality

Most governing bodies have the potential to generate some hospitality income from events and facilities, but clearly the major spectator sports will be in a position to generate the greatest return on investment in this area.

Key Questions that governing bodies should ask themselves are:

- *“Have I got the right products, at the right range of prices?”* If in doubt, compare what you are offering with other facilities in the same sport, or the same area. You need to keep monitoring like this, because that’s what your customers will be doing, and they are not necessarily committed to your sport; many companies select their sporting days out according to the value on offer.
- *“Are the catering standards good enough?”* Because this is the core value the customers seek. If the catering is poor, they will have a poor experience, however exciting the event.
- *“Is the service good enough? Have you enough staff and sufficient supplies? Are you prepared for bad the weather? Have you the necessary management expertise?”*
- *“Are you making enough profit?”* Compare yourself to the rest of the industry (for example, by making enquiries with the CCPR, or any trade body).

6. Conference & Banqueting

This is only likely to be a profitable activity for those governing bodies that have appropriate facilities or that can create them at events. We include here all aspects of event day and non-event day catering, conferencing, banqueting and facility hire.

Essentially it is the facilities that are being marketed, not the actual sport, although the sporting association may be the key selling point that brings companies to your door rather than the hotel down the road.

Key Questions in this area include:

- *“How do our public/corporate spends per head compare with other local facilities?”* If the answer is “poorly”, you need to look hard at the reasons in order to raise performance and thus earnings.
- *“Is the sales team doing a good job? Can you improve their calls to orders ratio?”*
- *“Are the catering and service standards good enough, compared to others in the marketplace?”*
- *“Are the costs under control, and are there savings you can reasonably make, in order to enhance profits?”*

7. Advertising

Governing bodies can also earn advertising income at events (for example, by selling advertising space round the perimeter of the playing area), through magazines, on the website, etc.

Key Questions are:

- *“Should you use an agency?”* If you have a large arena, a magazine with a large circulation, or if the governing body simply doesn’t have the relevant expertise in-house, then it should seriously consider retaining an agency.
- *“Is the Rate Card up to date and is the Site Inventory accurate?”*
- *“What are the costs (for example, in production of boards, design, staff etc)?”*
- *“Have you kept up with latest innovations and new technology? Are there opportunities being missed?”*

8. Merchandising & Licensing

What’s the difference? Simply, “merchandising” refers to your own products that you are selling yourself; “licensing” means those products that you give others permission to make and sell, for which you earn returns in the form usually of royalties.

Key Questions include:

- *“Who are your customers and where are your markets?”*
- *“What products would they be interested in?”*
- *“Are you meeting demand?”* If your delivery schedules are long, and customers are complaining, then you need to look at supply and suppliers. You may already be losing income!
- *“Are there frequent complaints?”* If so, review the quality and value of the products concerned. Look at the whole range, to assess whether you need more or less products. Most governing bodies have too few, and often of doubtful quality.
- *“Have you registered the brands? Are you sure no one is misusing them?”*
- *“Do you have access to appropriate specialist advice?”* Licensing and registration can be legal minefields so usually it’s a good idea for to get advice from the experts.

This is a highly commercial area which demands entrepreneurial skills (including risk assessment, for example) that governing bodies will often lack. Outsourcing the marketing and sales is therefore an option to consider. Governing bodies should be able to find partners prepared to work on commission only.

Gordon Bell, Merchandise Manager for the *Scottish Rugby Union*, and Fabian Adams-Sandiford from *UK Sport* give governing bodies some advice on how to establish their own merchandising operations in section 4.

9. Affinity Marketing

“Affinity” is the key here; this marketing is all about your database, about the people on it being prepared to try a product because they feel some loyalty to either the governing body or the sport. But loyalty alone won’t sustain an effective affinity marketing programme, a successful scheme must also offer the customer good value. The best affinity schemes in sport are those that involve financial services, savings, insurance, credit cards and travel.

Key Questions for governing bodies looking to establish affinity schemes include:

- “Are you getting a reasonable return for the size of our database?” US studies suggest that each name can be worth around \$27 p.a. to a sports body.
- “Are your customers receiving reasonable value for money? And are you getting an acceptable rate of commission on orders placed?”
- “Are the accounting systems safe & secure (i.e. is the governing body receiving all the payments due for orders placed)?”
- “Have you got all the mechanics and communications right?” Affinity schemes must make it easy for customers to understand: the offer; the benefits for their governing body/sport; and how to place an order.
- “Is everyone working the database hard enough? Can you and the partner companies increase sales and thus profits?”
- “Should you look for more and/or different product schemes?”

10. Internet/Technology

Thinking about this section of the **Goodform Commercial Audit** forces governing bodies to consider whether they have kept pace with developments in ICT.

Governing bodies need to ask themselves:

- “How good is our website? Is there an online shop to sell your products & services cheaply & speedily? Is the site user-friendly, suitable for young and old? Is there a members’ only section, giving them a unique benefit?”
- “Are you managing the website effectively? Is it kept up to date? Are you monitoring “unique users” rather than merely “hits”, and “stickiness?”
- “Have you got e-mail addresses for most of your database, so that you can send them e-zines with latest information and offers?”
- “Do you have mobile phone numbers, so that you can do cheap and effective text campaigns and selling mobile phone products (such as, wallpapers, ring tones, results services)?”

If we might labour a point here: every governing body needs to gear itself up to today’s technologies or risk losing income and missing out on new communications opportunities. There are number of governing bodies that

have met this challenge and are now using the Internet to sell merchandise, memberships, tickets, advertising, corporate hospitality, conferences, etc etc. In the last year, for example, the RFU has sold many thousands of memberships to its new England Rugby Supporters Club through the website - and it has e mail addresses for 85% of all members, who now receive e-zines two or three times a month. The governing bodies who have yet to embrace this challenge need to catch up... fast.

11. Awards & Certificates

This is a major income stream for some sports (such as, swimming and gymnastics), but one that is all but ignored by too many others. Why this should be is difficult to explain and understand given that it's such a straightforward way of generating income.

Every governing body runs development and coaching schemes; these are part of their *raison d'être*. The key thing to do is to find reliable suppliers for the badges, awards and certificates and charge a reasonable price for them. The customers are kids of all ages and, of course, their proud parents, families and friends. The key is to make the products (the badges, awards etc) attractive and keep costs low.

Key Questions are:

- *"Have you got the right products to sell, and are they available where they are needed, which is locally - in clubs, sports centres, schools, etc?"*
- *"Have you good agents qualified to sell them?"*
- *"Are there the right links between the coaching/development sides and the marketing/sales operation, because you cannot devalue the standards?"*
- *"Are you controlling costs, and maximizing sales?"*

Marketing & Sales Plans

It's time to really get started. You have now reviewed all your existing products. You have thought about the markets. You have identified areas where you can be more efficient, and where you can go out and market new products. Using the Table above, and the brief advice in the **Goodform Commercial Audit** section, you have thought about the channels to market you can use.

The next step is to do your Plans. Don't be too apprehensive! There's a lot of common sense involved; detailed marketing expertise is not essential. Most governing bodies will be well used to the planning process, because that is the usual way of accessing public funding. But there are a few differences:

1. these Plans are your own independent efforts, and no one is going to mark them! So, do them your own way

2. these Plans have a simple aim, to make money. There is just the one, bottom line.

The best help we can give in this booklet is to give you a structure, with brief notes. We have this in Annex A. Any queries, use the phone numbers given, and they will do their best to help you through the process.

David Teasdale, Chairman, *Goodform Ltd*

*(Goodform Ltd can be contacted on 01926 458180 or admin@goodform.info
You can also contact Goodform Ltd to buy copies of their series of guides on 'Sales & Marketing for Sport')*

Membership Packages *By Goodform Ltd*

It's a tax, or a levy. Well, that's what lots of governing body members think about membership. Many, many members feel they are paying through the nose. Most are paying through their club, and their county, so they feel distant, removed from the governing body. They often don't know what they are paying for, and what the governing body does for them. Unsurprisingly, there is widespread dislike of the membership fee, linked with distrust of the governing body. It's not surprising that membership numbers are down, in many sports.

This is a bad story. Is it fixable? Yes - we believe that the key problem is that membership is not presented as a product; it's not marketed as something that people might actually like to buy. There is no emphasis on value for money. But the fact is if people are paying for it then *it's a product*.

In this chapter, we aim to help you turn your membership into a decent product, with attractive features, giving value for money. Then you can start marketing it with energy and skill and a clear conscience! Actually, it can be an easy and painless process for the governing body. Let's look at what makes a *product*:

- Branding
- Contents
- Packaging
- Value.

Those four vital factors can help you convert members into satisfied customers, so that you can grow the numbers and get a profitable income stream.

What do you need to do? Let's look at each of these factors.

1. Branding

This one is easy for sport usually. Any sport's history & tradition gives every governing body a readymade brand. It's essentially the sport itself. Thanks to decades of passionate support, governing bodies have something that people widely recognize, with known values... and that's just what a brand is. So, soccer, rugby, tennis, badminton, wrestling, sailing, squash, croquet, weightlifting, bowls, volleyball, cricket, climbing, cycling, athletics, modern pentathlon, handball, fencing, and so on and on, are all also brands. Every sport is a brand. And every sport has brand values.

What you have to do is to apply that brand to the membership scheme. Let people feel they are joining their sport. Try to get into your offer that sense of belonging to something that buyers care about. Link it all to the brand values:

drama, excitement, achievement, skills, etc. Get these vital brand values into the advertising and the packaging.

2. Contents

By “contents” we mean, what the customer gets for his or her membership. This is where you need to think especially hard about value for money. In general, put a long list of attractive and interesting features into your package for members. Above all, the “killer” benefits, the one or two “must haves” that get your supporters’ hands into their wallets and purses.

Goodform have studied a very wide range of membership schemes, within sport and outside, and from this experience have compiled this long-list of possible member benefits for you to think about for your own scheme:

- Tickets for events - access to Twickenham tickets is a big factor in the success of the RFU’s scheme for England supporters launched in 2003
- Members’ Pack – every member should receive this introductory incentive, which can contain items like membership cards, badges, car stickers, certificates, magazines, Yearbooks or handbooks, merchandise like caps, pens, mousepads, swim goggles, wristbands, pedometer, etc etc. Look at your own merchandise and see what you can afford to put in the Pack, and what will give members value.
- Access to facilities - Liverpool FC, for example, have two Sundays a year when Anfield is open to official club members. And organisations like the National Trust and English Heritage membership gives access all year to their buildings and houses.
- Insurance – perhaps the best example is the British Ski Club scheme, where insurance savings can exceed the cost of membership. But, some governing bodies have followed this example too slavishly, without thinking whether insurance cover is actually important to their particular sport
- Entry to events (at various levels) - in many sports, membership is necessary to compete in certain events. We recommend that governing bodies might view this as a particular kind of membership, for which perhaps people pay more (see below)
- Discounts & offers – for example, on governing bodies’ merchandise, and on a range of other goods like travel, hotels, restaurants, white goods, holidays, visits to attractions, etc
- Free or reduced rate coaching
- Free governing body magazines/books etc
- Savings on season tickets

Governing bodies should consider offering a range of membership products, aimed at different ages, levels, earnings, etc, of supporters. There might be youth and adult memberships; player categories; and/or ordinary, gold, silver classes of membership. Possible extras are lifetime memberships.

3. *Packaging*

We can explain how important this can be, by asking you to think about the difference that packaging to your own purchasing. If a product looks good, and if the value and benefits are clearly displayed, you are more likely to buy – right? And you are more likely to feel good about it and, crucially, to show it to others.

Governing bodies need to think hard about this, with every aspect of the membership product:

- a) should the initial items for members be in a nice box? This can include the Members' Pack. That is, if you have one; if you don't, you should create one!
- b) are you using envelopes, stationery, etc of good quality? Anything you send to members should reflect the brand and its values, and help to make them feel important
- c) are you packaging the offer, in all its advertising, effectively? Does it look good on the page, on the website, in the poster, etc? Is the value made clear?

4. *Value*

Here is the key: all the best branding and packaging may fail if customers can't see any value in the product. We all depend on word of mouth, and that is how and where value is sold. Your list of "Contents" items should add up, in the customer's eye & mind, to more than the cost of the membership product. Over the membership year, there should be plenty of communications with members to keep reminding them what they have, and what they can get, and thus to underline value.

5. *It's a gift*

Here's a final point, and it's a big one. *Goodform* have developed a large and growing gift market for sports memberships. Call us for free initial advice on the number provided below. In essence sport can be positioned in this enormous, gift marketplace as a new and compelling solution to the familiar conundrum for families & friends - "*what do I buy for him/her/them*"?

We recommend you plan hard & fast to package your membership product as a gift, for Xmas, birthdays, anniversaries, retirements, promotions, births, for celebrations of every kind. There are loads of selling opportunities every week, every year! And remember, these will usually be new customers; you can sell them other products and services in your range!



David Teasdale, Chairman, *Goodform Ltd*

*(Goodform Ltd can be contacted on 01926 458180 or admin@goodform.info
You can also contact Goodform Ltd to buy copies of their series of guides on 'Sales &
Marketing for Sport')*

Intangible Assets By UK Sport

Go on. Admit it. This is the chapter you're going to skip, isn't it. And who could blame you? Just the sight of the words "intangible assets" was enough to make your eyes glaze over.

Perhaps in a couple of months, when you chance upon this Guide again in the bottom drawer of your desk, partly obscured by envelopes and old copies of your c.v., perhaps then you'll give this section a quick skim.. Just to see if it did say anything useful. But not a proper read. Not just now.

This is a shame because that means that what you won't be discovering at this precise moment is that intangible assets will be crucial to any income generation project that you choose to embark upon. Intangible assets have been a recurring theme in this Guide. *Nationwide*, for example, have emphasised just how much importance potential sponsors will place on your brand. The *Scottish Rugby Union* have explained the key roles that your trademarks and your brand play in any merchandising operation. And *Goodform* have stressed the importance of applying your brand (again) to your offerings to your membership.

And it's not as if you're short of them. Your intangible assets are all of your non-physical assets. They include not only your *brand* and your *trademarks*, but also your *copyrights*, the *goodwill* that your governing body has built up over the years, and even your *skilled workforce*. What's more they all have a value and they can all contribute to revenue and growth.

Examples of intangible assets

- Intellectual property – trademarks; patents; copyright; internet domain names; surveys, studies, forecasts & estimates; member/customer lists & data.
- 'Know how'
- Contracts & leases
- Skilled & motivated workforce (including effective management)
- Goodwill (the combination of an organisation's reputation/good name and its good stakeholder relations)
- Brand (stakeholders' perceptions of what the organisation or its products mean to them)

Indeed, in the long run your intangible assets could turn out to more valuable and more able to generate revenue than your tangible ones¹. Unlike physical assets, intangible assets aren't subject to diminishing returns. Which means that long after you've stopped being able to wring additional income out of, say, your conference facilities, your membership data will still be making you increasing amounts of money. In addition, your intangible assets can be put to more than one use at a time. Consider for a moment on just how many items and in how many places your governing body's logo currently appears...

But before you rush off to organise a 'fire sale', you need to recognise that your intangible assets won't all contribute to revenue in the same way. Some, mainly intellectual property, will have a cash value to 3rd parties and can therefore be priced (using market-, cash- and income-based methods) and sold. If you've patented a piece of exercise equipment, for example, there may be a manufacturing company willing to pay for the right to make and sell it. Others, such as your workforce, will have little or no value to outsiders and therefore can only make money for you when used in combination with other assets. And there are yet other assets, like the information on your membership database, which can make you money in both of those ways.

A better way of starting to 'work' your intangible assets is to start actively managing them. Build them into your commercial strategy. If you decide to follow the approach set out by *Goodform* in Chapter 1 then:

- As you identify possible markets and products, identify the intangible assets that each will require.
- As you conduct your commercial audit, make an honest assessment of the condition of those assets and their ability to contribute to your goals. (Again, as *Nationwide* make clear in section 6, if you don't have much of a brand you're going to find it difficult to attract sponsorship.
- As you develop your sales and marketing plan, ensure that it sets out the actions you will take to protect, grow and exploit the intangible assets required to implement it.

If you decide not to follow the *Goodform* approach, then you should still include within your commercial strategy a plan for protecting, growing and exploiting your intangible assets.

Some elements of that plan will be obvious. Protecting your intellectual property will clearly involve: registering trademarks and patents; enforcing copyrights; and carefully controlling access to proprietary information, such as membership

¹ The Brookings Institution has estimated that between 50% and 85% of the market value of corporations is attributable to intangible assets. And almost half of respondents to a recent Accenture survey of company executives said that they believed intangibles to be the primary source of long-term shareholder wealth for their companies.



data. Growing the value of your skilled and motivated workforce will require you to recruit and retain good people (and that includes at senior level), invest in their development and maintain good employee relations.

But other elements of that plan will be less obvious. How, for example, should you go about protecting the goodwill that underpins your brand, given that it takes years to build up but can be destroyed almost overnight? Do you need to include explicit links between this section of your commercial strategy and your risk/reputation management strategy?

And are there other ways you can exploit the information on your membership database besides using it to sell your goods and services to members? Perhaps 3rd parties would be as keen to sell *their* goods and services to your members?

And what about exploiting your governing body's 'know how'? Whether you think so now or not, your governing body does 'know how'. Perhaps some of the training equipment, methods and techniques that your coaches have developed for your elite performers have wider commercial potential? Perhaps your staff have the ability and the capacity to provide services to other governing bodies?

These are just a few suggestions. In the end it will be for you to decide your governing body's commercial goals, and the steps to take to achieve them. You're perfectly entitled not to take any special steps with your intangible assets. But before you do so it may be worth reflecting on whether your governing body's future health and wealth depend less on its cash and its buildings, and more on its knowledge and its brand.

Fabian Adams-Sandiford, UK Sport



Merchandising *By Scottish Rugby Union*

If there is one area of commercial activity that we in sport believe we understand completely, it has to be merchandising. The rules are simple and we've all been following them for years. If we're a local club then put the club crest on an appropriately coloured scarf or v-necked sweater. And if we're the national governing body then we offer a selection of replica national jerseys, a mug or two and perhaps a calendar. In either case it's then just a matter of sitting back and waiting for a steady stream of orders to come in... Isn't it?

In reality, of course, the 'steady stream' often turns out to be more a trickle. The vast sums of additional income that we expected (and that were to be used to hire a coach for the under-15s or support the move to new offices) proves as elusive as that pot of gold at the end of the rainbow.

The plain truth is that developing and exploiting a sports-related product range or brand requires as much effort, expertise and planning as bringing to market any other product range or brand. Where we in sport tend to go wrong is in skimping on those three elements.

One of the reasons why we skimp this is, frankly, complacency. The fact that we have an established, defined and loyal customer-base (our sport's fans and our members) gives us a head start in the beginning. But then we become too reliant on this local or within-the-sport market, which distracts us from pursuing the growth potential of other markets. And then we governing bodies sometimes discover to our cost that our fans' and members' loyalties (and with it, the accessibility of the purses) begin and end at club rather than national level.

So how does a governing body go about maximising its returns from merchandising? For the SRU the first step was to recognise that merchandising is more than just a means of making money (important though that is). Merchandising is also an excellent way of increasing the exposure and the reach of our brand and those of our sponsors. And merchandising provides an important membership function: enhancing members' experience of, and affinity with, their sport. When we drew up *our* merchandising strategy we took the time to assess, prioritise and address each of these benefits.

An important part of that assessment must be an honest evaluation of whether or not merchandising is right for your governing body. You will need to ask yourself whether people will really want to buy into your brand (which is effectively what they will be doing if they decide to buy something with your logo on it). Too many governing bodies decide to enter new areas of commercial activity without satisfying themselves that the likely benefits will outweigh the likely costs.



When it comes to 'costs' the single most important factor affecting their scale is whether a governing body runs its own merchandising operation or makes use of licensing agreements. Licensing's most obvious attractions are the low costs and small risks involved. It is the licensee who bears the not inconsiderable risks associated with capital investment, product development, staffing and inventory. On the other hand, owning an in-house merchandising operation offers the prospect of larger overall returns, and arguably gives the governing body greater quality control and the opportunity to better understand its customers.

In reality 'in house' is an option only for medium-sized and large organisations. Our experience has taught us that it is best to follow an incremental approach if you choose the 'in house' option. A good place to start is with the national kit. In many cases the kit supplier will be prepared to become one of the kit sponsors. Once sales of team kit and jerseys have been established, governing bodies can add additional items to their range of merchandise. The most obvious and natural progression is a broader range of branded leisurewear. At this point specific skills become an issue, and it's worth considering a member of staff training in, and responsibility for, sales.

As the business grows further governing bodies usually look to increase the scale of their operations by establishing a small shop and (again with an eye on ensuring the right mix of skills is in place) appointing a retail manager. But in doing so what some fail to recognise is that they've made the move from merchandising into a combination of merchandising and *trading*. The two are not the same; once a governing body begins trading it has to bring in new skills (such as sourcing and purchasing), account for additional costs (overstocking, markdowns) and additional risks. An added wrinkle is online trading, which is all-but essential in the 21st century and requires a different mix of skills yet again.

It's at this point that a governing body is most likely to suffer a crisis of confidence, and it's now that they most need to hold their nerve. The temptation will be to reduce risk and expenditure by offloading their own operation in favour of a licensing agreement. Sales may well increase through an outsourced operation, but - the chances are - so too will frustration at the lack of control and flexibility. Invariably they will find themselves considering *re-establishing* their own operation.

For smaller governing bodies licensing may be the only practical way for them to become involved in merchandising, and there are a few simple steps that you can take to ensure that any partnership achieves their objectives:

- Choose your licensing partner(s) carefully, using a robust and transparent selection process. At the end of the day, it will be the governing body's logo and brand that will be on display not the licensee's.
- Draw up your licensing agreement(s) with care, specifying – amongst other things – what is being licensed, where and for how long.



- Choose the right kinds of merchandise, and remember that fashions and tastes differ between different groups and can change quickly.

Any governing body looking to secure a significant proportion of its income from merchandising must make a significant and long-term commitment to this area. That commitment needs to come from the top of the organisation, and be demonstrated as much with real resources as with warm, supportive words. If governing bodies can combine that commitment with a robust strategy, the right mix of skills, and good products that elusive pot of gold mentioned earlier might well be attainable.

Gordon Bell, Marketing Manager, *Scottish Rugby Union*
Fabian Adams-Sandiford, *UK Sport*

Sponsorship: A Sponsor's Perspective

By Nationwide

1.1. The role of sponsorship

In an environment where organisations are having to justify their communication spend sponsorship is having to fight harder to deliver tangible commercial returns. Sponsorship cannot be viewed by rights-holders (governing bodies) as philanthropy and sponsorship proposals must demonstrate how they can provide additional value alongside traditional advertising channels.

Potential sponsors are looking to dominate the collective interest of groups in a manner which is capable of moving consumer attitudes in a positive direction. They want the kind of regular media exposure that delivers a continuous communications platform. They also want a cost effective way to reach targeted customers (either niche or mass interest) in numbers sufficient to allow them to achieve their communications objectives.

2.0. Different types of commercial objectives:

Depending on their objectives organisations will require differing commercial returns. The type of sponsorship organisations are seeking can be generally categorised under the following headings:-

Brand

Sponsorship enables an organisation to increase the exposure of its name/brand which in turn will lead to increased recall. By aligning with a particular sport/brand an organisation will also benefit from the transference of values associated with that property. An organisation will also benefit from positive association with its target audience if a team/individual sponsorship is undertaken and the team/individual is performing well.

Increased sales

Many organisations will use sponsorship to help increase sales. This is usually promotion driven and provides a commercial advantage over their competitors. Organisations can also utilise the rights from their sponsorship package in advertising materials to appeal to consumers and drive traffic in-store. This is usually driven by the use of image rights on product or at point of sale and is easy for organisations to track the success of their sponsorship investment. Carlsberg saw a direct correlation between in-store and on-pack promotions featuring England footballers around Euro 2004 and a significant increase in sales.

Revenue Generation

Increasingly technology companies are using sponsorship to generate additional revenue streams. Mobile network providers have introduced bespoke services linked to their sponsorships which enable them to share revenue with the rights holder.

Corporate Hospitality

Corporate hospitality can be used to assist in building relationships with key business influencers. For some organisations this is a key driver and allows them to develop and enhance long term relationships with both clients and intermediaries/influencers. This is common in motor sport generally, but a particular feature of Formula One.

3.0. The evaluation process:

When considering a sponsorship proposal potential sponsors will usually evaluate the following:-

The Audience

- How many people have an interest in the sport?
- Of these how many regularly watch the sport live and on TV?
- Do the audience demographics match the organisations target market?

Brand Relevance/Profile

- Does the sport reflect the values of the organisation?
- Does the sport have a good reputation or would there be potential for the organisation to be associated with negative publicity?

Exposure

- What is the broadcast platform – is this terrestrial or satellite?
- How often is the sport televised?
- What is the expected TV and radio coverage?
- Where else is there likely to be exposure i.e. highlights packages, news programming?
- How is the sport covered – is it dominated by branding or does it offer a message rich dialogue?

Impact

- What rights does the contract offer which can be leveraged by the sponsor?
- How can the relationship be extended to deliver more than the contracted rights?

Image Rights

- What access do sponsors have to the personalities involved in the game both in terms of live appearances and images for use in advertising and for promotional activities?
- What (if any) are the restrictions regarding image rights?

Cost

- Is the cost realistic given the above criteria?

- What is the opportunity cost for sponsors? What are sponsors alternative options for their communications budgets? Is the proposal a realistic alternative to traditional advertising?

Term

- How long is the sponsorship term and what events are covered within this period?

Exclusivity

- What provisions are in place to protect the sponsor from competitors and other sponsors / partners?

4.0. Case study – Nationwide Building Society

4.1. Nationwide's sponsorship objectives

- To pre-dispose people to the Nationwide brand
- To add meaning to the brand
- To build on the pre-disposition via brand and product advertising

4.2. Nationwide Building Society's sponsorship history

1996 - 2004	Title sponsor of The Nationwide Football League
1999 - ongoing	Title sponsor of The Nationwide Conference (from 2004 inc north and south feeder leagues) Wales Team Sponsor Associate sponsor of The Scotland Team
1999 – 2002	England Team Sponsor
1999 – 2002	Title sponsor of The Irish Gold Cup
2003 - ongoing	The FA Partnership in association with The England Team, FA Cup and women's football Title sponsor of The Irish Cup

4.3. The Football League:

Nationwide's decision to move into football was driven by the need to stand out in a cluttered financial services industry. At the time Building Societies were seen as provincial and Nationwide needed to communicate that it was a national organisation which could rival traditional banks. The Football League was Nationwide's first football sponsorship.

The Audience:

- In 1996/7 season when Nationwide started their sponsorship the Football League had live attendances of 12 million across all divisions.
- The TV audience during Nationwide's sponsorship grew from 21 to 25 million.
- The audience profile of Football League supporters spans 15-55+ but is heavily weighted 15- 54 which matches Nationwide's broad age

demographic of 18-44 year olds. It is predominantly male but female audiences are increasing. It also appeals across all social grades.

Brand Relevance / Profile:

- The Football League represents the middle tier in English football.
- It is positioned as football for the local community, which allowed Nationwide to position itself as being personal to the local community yet maintain a national status. "Wherever you'll find a Football League Club you'll find a Nationwide branch"
- It is widely accessible as it covers 3 divisions with a wide geographic spread. It's coverage throughout England and major cities in Wales mirrored the geography of Nationwide's retail network which has the majority of its branches in England.

Exposure:

- Nationwide League Football has predominately been broadcast on Sky Sports with average 'at home' audiences of 350,000 and average 'out of home' audiences of 700,000 viewers per match.
- 65 live matches were broadcast per season.
- Local radio and news programmes covered the progress of Nationwide Football League teams in their area, in addition to reporting on the league tables. As title sponsor Nationwide received both verbal and logo exposure.
- Highlights programmes were shown twice a week throughout the season.
- The platform was for a short time held with ITV Sport where Nationwide had first refusal on the broadcast sponsorship for both the live matches and regional highlights programmes.

Impact:

- Within the contract Nationwide had access to several awards (e.g. Manager of the Month) which could be leveraged to provide strong PR coverage on TV, radio and press.
- Nationwide worked in direct partnership with The Football League to maximise the impact of the Play Off Finals.
- Nationwide were offered first option on several sub sponsorships such as broadcast sponsorship and on-line activities.

Image Rights:

- As a League Sponsor Nationwide had no contractual rights over players or clubs in the 3 divisions, however a provision that best endeavours would be used by the League to provide players for promotional opportunities was agreed.
- A separate agreement with The League Managers Association ensured full support from all Football League Managers.

Term:

- The contract had an initial term of 3 years but Nationwide were able to extend this on two occasions for another 2 and then 3 years.

Exclusivity:

- Nationwide had category exclusivity which prevented any other financial services providers from being associated with the Football League.

4.4. The England Team

Nationwide's decision to move into international football was driven by the need to demonstrate that Nationwide had both the size and stature to be regarded as a genuine competitor to the traditional banks.

The Audience:

- The audience profile of England fans spans 16-55+ with the majority falling between 16-44yrs which again matches Nationwide's broad age demographic of 18 -44 year olds.
- It appeals across all social grades.
- Whilst audiences are still male dominated, female interest is increasing female audience, especially around major tournaments.

Brand Relevance / Profile:

- The England Team represents elite football within the UK and fits well with Nationwide's aspirations to be the best and most recognised financial services provider in the country.
- The team includes many icon players such as David Beckham and Michael Owen which widens its appeal outside a core 'football following' audience.
- Whilst various off the field actions of players and managers have tarnished the reputation of the national team at times this has not really limited its overall appeal.

Exposure:

- When playing at Wembley England Internationals had live attendances of circa 80,000. This figure has varied since England has been 'on the road' but still averages in excess of 50,000.
- England average 8 matches per season
- Friendly matches broadcast on BBC have a TV audience of circa 6 million viewers.
- Competitive matches broadcast on Sky had a TV audience of circa 2.5 million viewers. Competitive matches broadcast on BBC had a TV audience of circa 8.7 million viewers.
- During a tournament TV audiences can increase to 20 million viewers. (This does not include pubs and clubs which would add another 10 million during a key tournament.)
- National and local news programmes have extensive coverage of International match build up as well as post match analysis and squad news.

Impact:

- As the team sponsor Nationwide benefited from media coverage of the team in branded training kit.
- Nationwide were offered first option on several sub sponsorships such as broadcast sponsorship and on-line activities.
- The switching of Nationwide's involvement from Team Sponsor to Official Partner has reduced the impact as all rights are now shared equally with four other partners.

Term:

- The contract had an initial term of 4 years. Nationwide re-signed as an FA Partner including Official Partner association with The England Team and FA Cup and primary partner in Women's Football.

Exclusivity:

- Nationwide had category exclusivity which prevented any other financial services providers from being associated with the England Team or The Football Association.

Conclusion:

Sponsors must demonstrate strong commercial returns from their investments in sponsorship. What these are will depend on the specific objectives set out by the organisation which generally cover brand exposure, increased sales, revenue generation and corporate hospitality. Organisations will consider several criteria in evaluating proposals in line with their sponsorship objectives.

What governing bodies need to do before approaching potential sponsors is:-

- Fully research the organisation - including consideration of their wider objectives and commercial returns required.
- Establish a good brand fit – make sure the sponsorship proposal appeals to the organisation and fits with the messages they want to communicate to their target audiences.
- Apply a realistic valuation – consider what the sponsorship is really worth to the organisation and value it accordingly.

Caroline Rees, Sponsorship Manager, *Nationwide*

Television Rights: A Broadcaster's Perspective

By Five

Someone representing a minor sport once came to see me to enquire how, after an absence of a decade, it could return to television. Yes, it had been down in the dumps, on its uppers, but a regular appearance on TV would be the answer to all his and the sport's problems. Could I help? Would I get it back on the box and transform its fortunes? There it was: I was the doctor, and the patient's life was in my hands.

Of course it doesn't work like that. There has to be a desire from both sides and a patient in considerably better health. Take a healthy, vibrant, growing sport to a broadcaster and you have far more chance of at least getting an audience with that omnipotent Commissioning Editor. If there's already signs of life, interest from other mediums and an improving profile then the initial sell will be easier. And what's the initial sell? Getting someone to say "*Hello, what are you offering*"?

Broadcasters are looking for ratings - the volume of audience - to sell advertising or add to their subscription base if they are a satellite channel. Even the BBC, with its strong public service remit, is focused on viewing figures to sustain its license fee. Here though there is (or should be) a difference: commercial channels have to be commercial – they have shareholders and are profit-making organisations. Sport on these channels has to *earn* the right to be there instead of, for example, that old film that was bought for a tenth of the cost of the hiring an outside broadcast unit to cover a sporting event. These are the kinds of choices commercial television has to make.

Demographics too are now increasingly important. How many 16-34 year olds are watching? Is the audience up- or downmarket? You need to know what to attract.

Now it's not rocket science to understand that sports fall into two very distinct categories – those that broadcasters actively pursue and those they don't. Hands up all those in the first group... Ah, not many. So for everybody else it's going to be tough! However, there are some useful tips to shorten your odds of success.

Firstly, know your broadcaster. Even the biggest sports marketing companies get this wrong. Look at what the channel or channels transmit. Are they primarily about event coverage? Do they take feature programming? Are they a dedicated sports channel or have a mix of different genres? Try to think of the issues the buyer has when he or she takes a proposal to the Director of Programmes.

I have lost count of the number of times someone has approached me with "*this really great one-hour documentary idea*". Look at the *Radio Times*. How many one-hour documentaries can you find? They are few and far between nowadays.



Television has changed; it's about formats and series more than single programmes. Eight weeks of "Sports Stars from Hell" and you may be lucky!

You also need to have an idea of cost of coverage. It's worth saying that there's a world of difference between the costs of covering the cross country section of an Equestrian three-day event and table tennis from the local leisure centre. It's a factor that will influence the broadcaster. Moving those horses into the Spectrum Centre in Guildford is likely to take something away from the spectacle of the occasion, so you are stuck with it. Therefore if this event isn't on the 'must buy' list you may have to make it more appealing by bringing more benefit to the broadcaster by a reduction in license fee or a show that 'pays for itself'.

You might convince the event sponsor to subsidise the coverage, or you may find a broadcast sponsor who can do the same. This is much more common now for commercial channels – they are looking for cheaper (or free) programming and may well be willing to give up the programme sponsorship in return.

Even today's most powerful sports are flexible with start times and their calendar. Who'd have thought football would have kicked off at 1.00pm on a Sunday or Rugby League would become a summer sport? Let's not delude ourselves, these examples were about money (and an awful lot of it), but they illustrate the need for some give and take. Don't turn up with the calendar of events and their start times, throw it on the table and say "there it is, take it or leave it"!

More than anything sellers need a sense of realism. You can believe your sport is the greatest, and have worked every hour you have to get it into shape. But the fact that it's your passion doesn't mean everyone else shares your single-minded enthusiasm. The person across the table or on the other end of the telephone can either take it or leave it. That doesn't mean you shouldn't go into bat purposefully for your sport, but try to find some empathy with the listener and show some understanding of their priorities.

Finally, be able to listen and hear the signs that can help you sense the direction you should be moving in. I once had someone on the telephone who gave me a very long and drawn out eulogy about their sport and why it should be on TV and in particular Five. Identifying the merest hint of a breath I leapt in "*Look, I appreciate your time and trouble, I said, but I can categorically say that there is no chance of us showing 'underwater jousting' on the channel*". There was a pause and then he said, "*Anyway let me run through the venues and start times*"!

Robert Charles, Controller of Sport, Five



Trusts and Foundations *By British Judo Association*

There are many highly visible and successful sports trusts and foundations operating in the United Kingdom. The Football Foundation, the British Tennis Foundation and Youth Sport Trust are probably the most well known, and each is playing an extremely important role in the development of sport.

What these organisations have in common is the fact that they are registered charities that have specific sporting objectives as their charitable purposes. In general the objectives include providing sporting opportunities in disadvantaged areas, the provision of recreational facilities that are open to everyone, and the promotion of health or the pursuit of healthy recreation through sport.

In the case of the Youth Sports Trust, their mission is to support the education and development of all young people through physical education (PE) and sport. The British Tennis Foundation was established to provide and support tennis playing opportunities for young people, for the community at large, for schools and for people with disabilities. The Football Foundation sets as its objectives the creation of new modern facilities, increasing opportunities to participate in football, and improving the links between football and the community.

Trusts and foundations are an ideal way to build relationships with potential donors who would like to contribute financially to the development of their sport, but not to the general operations of the governing body (for fear, perhaps, that their donation will be used to cover administrative costs or a deficit). By effectively guaranteeing that donations will be 'ring-fenced', trusts and foundations can address the concerns of donors and secure additional funding for sports.

And what can further incentivise these donors is the knowledge that their donation will qualify for a tax deduction and that there is a guarantee in place that - because of the favourable tax treatment given to charities - virtually 100% of the funding would be devoted to a specific objective that they wish to support.

The BJA is in the process of establishing its own charitable trust. The purpose of this section of the Guide is to provide a brief overview of how we are going about doing so. It should be emphasised that the setting up of a trust or foundation will be a unique exercise for each sport, and proper legal advice and guidance should be sought every step of the way.

In order to gain charitable status a body must have a charitable purpose for the benefit of the community. These guidelines are established by the Charity



Commission. There are many such purposes but the two clearly applicable for sporting bodies are:

Purposes which benefit the community and are considered to be charitable include:

- 1. The provision of recreational facilities which are open to everyone (for example, sports centre) or which are for particular beneficiary groups such as people with disabilities or the elderly.*
- 2. The promotion of health (e.g. through education, access to medical facilities or the pursuit of healthy recreation through sport).*

If you decide that your sport could benefit from a new entity, tasked with raising money to be dedicated to a mission or purpose that would fall within the above guidelines, then you should consider forming a charitable trust.

There are many benefits to be gained by achieving charitable status. *The main advantages are that charities:*

- *do not normally have to pay income/corporation tax (in the case of some types of income), capital gains tax, stamp duty, and gifts to charities are free of inheritance tax,*
- *pay no more than 20% of normal business rate on the buildings which they use and occupy to further their charitable purposes,*
- *can get special VAT treatment in some circumstances,*
- *are often able to raise funds from the public, grant making trusts and local government more easily than non-charitable bodies,*
- *can formally represent and help meet the needs of the community,*
- *are able to give the public the assurance that they are being monitored and advised by us, and*
- *can get information from the Charity Commission (www.charity-commission.gov.uk)*

However, there are also limitations on charities, both in terms of the types of work they can do and the ways in which they can operate. *Those restrictions can be summed up as:*

- *A charity must have exclusively charitable purposes.*
- *The extent of political or campaigning activities which a charity can take on are limited.*
- *Strict rules apply to trading by charities.*
- *Trustees are not allowed to receive financial benefits from the charity which they manage unless this is specifically authorised by the governing document of the charity or by the Charities Commission.*



- *Trustees need to avoid any situation where charitable and personal interests conflict.*
- *Charity law imposes certain financial reporting obligations, varying with the size of the charity.*

Charities are further restricted by their own governing documents, of which there are three types: Memorandum & Articles of Association, Trust Deed, or a Constitution. Together these documents set out the charity's purpose, and how it may go about fulfilling that purpose. They need to be drafted carefully because they will 'set in stone' what your trust can and can't do.

Nonetheless the steps involved in forming a charitable body are quite straightforward. The Charity Commission offer considerable support via both their excellent website (www.charity-commission.gov.uk) and their helpline (0870-333 0123), and supplementing this free advice with other paid for legal advice should ensure that you have a smooth application process.

Our experience of establishing a trust has convinced us to all sports should at least explore the possibility of setting up such a body to identify and obtain new funding for deserving projects and initiatives like those outlined above. We are looking forward to the new BJA Trust complementing and supporting our mainstream programmes and activities.

Scott McCarthy, Chief Executive, *British Judo Association*

Retaining your income – the tax factor

Deloitte

The importance of tax to income generation

Understandably tax is usually the last thing on governing bodies' minds when they're considering income generation projects, particularly when those projects that involve the negotiation of new commercial contracts. And yet because governing bodies enjoy no special exemptions from tax, any income they generate will be subject to both corporation tax and value added tax (VAT)². With a little prior planning the impact of these two taxes on income can be reduced, leaving more money for governing bodies to invest in their sports.

Establishing the tax basis

While there are no special exemptions for governing bodies, very often special bases of taxation have been agreed historically with the tax authorities, which may be favourable or unfavourable. One of the problems for governing bodies is the fact that their objects (usually the promotion of the sport) actually hinder tax mitigation, because the tax authorities argue that a major part of sporting expenditure is not incurred for business purposes and therefore is not allowable for tax or VAT purposes.

Corporation Tax

Most of the key income generators identified in Section 1 of this Guide would usually be subject to corporation tax, with the possible exception of membership schemes. (There is an argument in the case of income from members that these may be within the 'mutual trading' principle³ that allows them to be exempt from tax. However, the other side of such an argument is that any costs associated with membership will not be tax deductible.)

With corporation tax the major issue is likely to be not whether the taxation of the income itself, but with the *deduction* of expenditure which the income funds. Thus, the direct costs of earning the income (e.g. supporting sponsors under a sponsorship contract) will be tax deductible. However, there is likely to be more difficulty with deducting the costs of running the sport or competitions and developing the grass roots. Whether or not this is allowed will depend on the basis of taxation of the governing body and, in particular, whether it is carrying

² Corporation tax, this is a tax on profits and is administered by the Inland Revenue. Value added tax is a charge on business transactions called supplies, involving goods and services and is administered by HM Customs & Excise. The two bodies are shortly to be merged under one department, HM Revenue and Customs. There are other taxes such as PAYE, NIC, Stamp Duty, Business Rates and Insurance Premium Tax that governing bodies also have to contend with, but they are not dealt with here.

³ Essentially where the customers of a business and the persons carrying on the business are one and the same; any profits made from those persons as customers belongs to those same persons as members.

on a trade. If it is trading, then it is only the expenditure that is wholly and exclusively for the purposes of that trade that is deductible. The Inland Revenue often argues that grassroots expenditure, which does not directly contribute to the earning of income, is not available for tax relief. At its extreme, this can mean that a governing body breaks even in a particular tax year, but because it does not get relief for all of its expenditure, it ends up with a substantial corporation tax bill and loss after tax.

In an effort to counter this some governing bodies have established charitable trusts, to which tax deductible gift aid payments are made. These charitable trusts, which are generally established for the physical education of youngsters and the provision of facilities for grassroots sport, are tax exempt (see Section 7 on Trusts and Foundations). The charity cannot, however, support elite or international sport exclusively, but can contribute towards capital expenditure where the use of the facility is wide.

Value Added Tax (VAT)

Each transaction entered into by the governing body needs to be examined and its correct VAT treatment identified. Broadly, a governing body will collect VAT charged on its income and offset it against VAT suffered on its expenditure. If VAT on income exceeds that on expenditure then the excess must be paid to Customs; there will be a repayment if the reverse is the case.

Generally the key income generators identified in Section 1 are likely to be subject to VAT at the standard rate of 17.5%. The potentially exception is, again, membership schemes, where there is a possibility that the fees will be exempt from VAT. There are other types of income that are specifically exempted from VAT so that VAT is not chargeable. However, a governing body that has earned 'exempt income' may find it is unable to reclaim all of the VAT incurred on expenditure. Other types of income may be zero rated (that is, taxable, but with the tax set at 0%). Income from magazines, for example, is zero rated. And there are yet other types of income are entirely outside the scope of VAT, so no VAT is chargeable.

When considering a new commercial contract and the commercial income, the VAT treatment (known as the 'output tax') needs to be clearly identified and agreed between the parties. There then needs to be a clause or provision in the agreement with the sponsor or customer, making the VAT position clear in relation to payments under it. This will protect the governing body's position.

Having established the VAT treatment of the income, the governing body is allowed to offset VAT charged on its expenditure subject to certain rules. VAT on expenditure is called input tax, and its recovery on the purchase of some goods and services is specifically blocked whatever the nature of the business. Examples of these are: the purchase of a motor car (unless used wholly for

business purposes) and business entertainment, where there is no onward charge. There are also special rules for the recovery of VAT on capital expenditure. In particular:

- Where a governing body, which is VAT registered, receives exempt income as well as taxable income, it is partly exempt and will not be allowed to recover all of the VAT it incurs on expenditure. VAT on costs incurred directly in connection with an activity that generates taxable income can be reclaimed, but governing bodies cannot reclaim the VAT on costs that are incurred directly in connection with the generation of VAT-exempt income if those costs exceed certain de minimis limits.
- Expenditure related to a non-business activity carries no entitlement to recover input VAT. Unlike the partial exemption position, there is no de minimis limit before the non-business restriction applies.

It is important to establish clearly the basis agreed with Customs & Excise for accounting for VAT and deducting input tax. Where there are non-business activities (and Customs may argue that grant-making is such an activity) and partial exempt income, as there will frequently be within governing bodies, the position is likely to be complicated. Generating additional sources of income, which are subject to VAT either at the standard or zero rate, is likely to improve the overall VAT position.

It is also important to bear in mind that the governing body's customer, sponsor or commercial partner is also likely to be subject to VAT. Therefore, if it is in a position where it cannot recover all of the VAT charged there is likely to be a VAT cost. This may be minimised by advance planning and co-operation with the governing body.

Particular types of income and expenditure – corporation tax issues

The profit as shown in the audited accounts will be the starting place for calculating the profits on which you pay corporation tax. Most types of income are likely to be taxable, apart from membership (see *above*). However, the Inland Revenue will look closely at the costs shown in the accounts in arriving at the profits, and may argue that some of those costs are not tax deductible. Problems can typically arise as follows:

- Where the income is used to fund grassroots development, such costs may not be tax deductible.
- Capital expenditure on facilities is not generally allowed for tax purposes unless the expenditure is on plant and machinery. Thus much of the expenditure on new stadia or sports halls will not qualify for tax relief.
- Entertaining and hospitality is generally not deductible unless it is contracted for, e.g. a sponsor is provided with tickets and meals for an event under its sponsorship contract.

- Grants which are used to help subsidise the governing bodies' expenditure, are likely to be taxable.

The importance of clearly establishing the basis of taxation with the Inspector of Taxes cannot be over-emphasised. This will enable the negotiation of new contracts to be put into their proper tax context. It is possible in the light of those agreements for governing bodies to organise their corporation tax affairs effectively. However, it is likely that in order to build up reserves within the governing body, corporation tax will have to be paid.

Particular types of income and expenditure – VAT issues

It is vital to establish the basis agreed with HM Customs & Excise for accounting for VAT. This will revolve around the accurate classification of supplies for VAT purposes on the output tax side, and maximisation of input tax recovery on the expenditure side. The timing of the cash flows for VAT purposes will also be important. The VAT rules are complex, particularly where the commercial partner is overseas. As a general rule, individual customers, such as members, will be unable to recover any VAT that they are charged, whereas businesses that are operating in the UK should be able to reclaim VAT, subject to the normal rules of input VAT recovery. However, great care is required where the commercial partner cannot recover the VAT charged under the contract. In such circumstances there may be tax saving arrangements so that the agreement suits the needs of both the governing body and the commercial partner. It is essential to understand their respective VAT positions to ensure that the optimum position is achieved and to negotiate with full knowledge of the tax treatment.

Some useful tax tips

Governing Bodies may find the following useful in minimising their tax costs, particularly generating additional income:

- Where possible, spread income for accounting and corporation tax purposes over the life of the contract to minimise the cash flow impact of corporation tax.
- Use a charitable trust to develop the grass roots, thus avoiding Inland Revenue arguments about non-deductibility of development expenditure.
- Maximise capital expenditure qualifying as plant and machinery for corporation tax purposes.
- Make any hospitality provided to sponsors and commercial partners contractual, thus avoiding a corporation tax and VAT disallowance.
- Avoid the non-business argument for VAT purposes, which would deny input VAT relief for the applicable costs.
- In the case of sponsorship, carefully analyse what is provided, particularly if the sponsor is partly exempt (e.g. a bank, building society or insurance company). If part of the sponsorship receipt is not subject to VAT, then this may result in more net cash for you.
- Ensure that you have a VAT clause in your agreement or contract to protect yourself from any additional VAT cost.
- Where the contract has a barter element (e.g. in return for sponsorship you get equipment) then both parties must account for the VAT on the consideration which they provide, otherwise there will be problems with Customs.
- Time output tax liability (e.g. there will be a longer VAT cash flow benefit for an invoice issued at the beginning of a VAT quarter than at the end).
- Make the most of partial exemption by negotiating the best method of recovering

Take action now

Governing Bodies should ensure that tax is considered in detail before the next commercial contract is signed. Paying attention to tax can improve both cash flow and the costs to you. Try it; you will be surprised at the outcome.

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Using the tax rules to generate extra cash for community clubs

Deloitte

How can governing bodies help?

Governing bodies are well aware of the vital role that their member sports clubs play in promoting social and community inclusiveness and, more particularly, health through regular exercise. Historically this significant contribution has not been recognised through the tax system which, if anything, has hindered the development of sports clubs. Young people are increasingly losing interest in sport after they leave the education system. Member clubs established on a sound financial basis in a particular sport or sports can help reverse this decline in participation.

The voluntary sports club sector suffers from a lack of both cash and adequate facilities despite the valuable efforts of many thousands of volunteers and you as governing bodies. In the past two years or so and following Government and Charity Commission consultation, there is a new era for amateur sports clubs that can now access valuable cash injections via new tax reliefs. This can be achieved by registering either:

- as a charity with the Charity Commission; or
- as a Community Amateur Sports Club (CASC) with the Inland Revenue.

Governing bodies should be aware of the rules and encourage their member clubs to look carefully at these two new reliefs with a view to registering. Where possible they should provide guidance and, certainly, publicity through their own publications and websites. The reliefs are extremely valuable, with clubs registering as CASCs already benefiting from a £5m cash injection in the last year-to-eighteen months. Cricket has been the most successful sport in terms of club registrations to date, accounting for over twenty per cent of the 2,000 that have registered.

Case Study: Wembley Cricket Club

The club decided to register as a CASC, and found the registration process relatively straightforward. Only minor amendments to the club's Constitution were needed, and registration took only a couple of weeks.

Tax repayments of £836 have already been received on individual donations.

In addition, the club's rates bill (previously more than £5,000 p.a. with 25% rate relief) has been reduced thanks to 80% mandatory rate relief worth nearly £3,000.

How to access the cash – the choice for clubs

Clubs have a choice; they can remain as they are with no tax incentives, or register as a charity or CASC. As anticipated at the time the new registration was introduced, the CASC route has proved to be more popular, principally because of the ease with which clubs can follow this alternative. However, the current Charities Bill, which makes the advancement of amateur sport a charitable objective, may encourage more to register as charities. Accordingly, in this section, we are concentrating on the benefits and qualification rules for CASCs. However, the Charity Commission website, www.charity-commission.gov.uk, provides details of the charity alternative.

CASCs – the benefits

Member clubs that register as a CASC enjoy the following tax reliefs:

- Individuals can make gifts to CASCs using gift aid, resulting in tax repayments.
- Mandatory rate relief of 80 per cent.
- Exemption for corporation tax, subject to certain limits.

The main reliefs are the first two, although corporation tax exemption should not be ignored, particularly since interest income and capital gains, e.g. on the sale of land, are exempt from tax, provided the funds are used for qualifying purposes within the club. Other exemptions for trading profits, fund-raising income and property income are more limited but nevertheless helpful.

Case study - Woodford Rugby Football Club

- Club membership is over 500.
- A new clubhouse was built in the mid-1990s, partly funded by loans.
- CASC registration is a major opportunity for using gift aid which has enabled the club to raise donations and repay its loans.
- Tax repayments will add a one-off £45,000 to the funds raised.
- Gift aid has transformed the way the club approaches fund-raising.

Gift aid

Individuals can make cash gifts to CASCs using gift aid, which has been used for a number of years by charities. This results in benefits for both sides, a win-win situation. Income tax relief is available for their gift, resulting in a tax repayment for a high rate payer of £23 for every £100 gift, and the club obtains a tax refund of £28 for every £100 gift.

This is a very powerful relief which can, and has already, enabled CASCs to raise substantial funds from their membership and in their local community. Unfortunately, subscriptions are not eligible for gift aid, although they may be set

at a level that enables the club to do no more than break even, with a request for a voluntary donation on top that will attract gift aid relief.

The voluntary donation principle can be used to secure more funds for the club and tax relief for the donor in other situations.

- ‘Sponsorship’ of individuals raising funds for the club, eg running in Marathons.
- Fund-raising events where the ticket price is set at a level to pay for the direct cost of the event, with a donation suggested on top.
- Auctions, where the Inland Revenue will accept that, if the price bid for an item that has a readily ascertainable value in excess of that value, the excess can be treated as a donation. This donation will qualify for gift aid relief (see booklet CWL4 published jointly by the Inland Revenue and HM Customs & Excise – Fund Raising Events: Exemptions for Charities and Other Qualifying Bodies).

There are other direct tax reliefs for CASCs, the major one being that individuals can also benefit from relief from inheritance tax on gifts to a registered CASC.

Business rates

The Local Government Act, which became law in September 2003, provides mandatory rate relief of 80 per cent for CASCs that are registered with the Inland Revenue. This came into effect on 1 April 2004. Some clubs do already benefit from discretionary relief of up to 100 per cent awarded on a case-by-case basis by the local authority. Mandatory rate relief brings CASCs in line with their counterparts in the charity sector which have enjoyed this treatment for some time. Clubs that remain unregistered will have to negotiate discretionary relief or suffer normal business rates as before.

How to qualify

The conditions that have to be satisfied are broadly:

- The club must have as its main purpose the provision of facilities for, and promotion of, participation in one or more eligible sports.
- There are over 100 eligible sports listed by the Inland Revenue, and generally follow the sports recognised by the Sports Councils.
- Membership of the club must be open to the whole community without discrimination, with affordable membership fees. The facilities should be available to all, giving broadly the same treatment to less skilful and less competitive players.
- Clubs must be amateur, which means that players cannot be paid, but expenses can be reimbursed. Club members can be paid for providing other services to the club, such as coaching.

- Distributions to members are not allowed; surpluses must be reinvested in the club. Any net assets on dissolution must be applied for approved community sporting or charitable purposes.
- CASCs can have social members, provided broadly they are in a minority, and can also run bars as a social adjunct to the provision of their sporting activities.

Clubs must register with the Inland Revenue Sports Club Unit in Bootle, which administers and monitors the CASC system.

Some practical aspects

Experience of dealing with both clubs and the Inland Revenue is now building up. Clubs are run on a voluntary basis, and the registration process is designed to be simple and accommodating for voluntary officials. Application is made to the Sports Club Unit enclosing:

- a registration form with seven simple questions on it;
- a copy of the club's governing document. This would be its Constitution, Rules or Memorandum of Association;
- a copy of the club's latest accounts;
- a copy of any prospectus, members' handbook, rule book, etc.

Applicant clubs will be informed when they are registered and told the date from which this is effective. Some clubs may initially be refused registration, as existing governing documents may not comply with the scheme. Others may be refused and told not to apply. There is an appeals process against decisions.

The Inland Revenue website – www.inlandrevenue.gov.uk – contains details of how to register and some guidance notes. The application forms itself contains useful hints for the completion of the questions and the reasoning behind them. One of the principal problems of non-compliant existing governing documents can be addressed by using the pro forma Constitution of a club that wishes to qualify as a CASC, which can be downloaded from the Central Council of Physical Recreation website (www.ccpr.org.uk).

Exploiting the opportunities

CASC registered clubs have already generated a total cash benefit estimated by Deloitte at around £5m. Case studies of two clubs that have benefited from CASC registration are included as Appendices 1 and 2. There is much more to go for, since the Department for Culture, Media and Sport estimated in June 2004 that around 40,000 amateur sports clubs across the UK might benefit from CASC status. This could generate an estimated annual saving of £75m. Many sports have few if any of their member clubs registered, and governing bodies have an important role to play in promoting the scheme. It is a powerful generator of cash for investment in community sport. Say a sport encouraged

1,000 of its member clubs to register, each generating £1,000 in donations per annum, then this would result in over £250,000 in tax repayments to those clubs available for investment in community sport.

13 December 2004
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Targets and Performance Indicators

Targets

“Investing in Change”, the high level review of the Modernisation Programme, identifies achieving financial independence as one of the ten key actions for every governing body.

The accompanying *“Success Criteria/Model Framework”*⁴ recommends that, depending on their size, governing bodies should aim to reduce the proportion of their income derived from government grants to the following levels:

Category 1	Unreliant upon Government funding for the core administration of the NGB.
Category 2	Use of Government funding to fund specific core staff, but total generally not more than 25% of annual turnover.
Category 3	Use of Government funding to fund specific core staff, but total generally not more than 35% of annual turnover.
Category 4	Use of Government funding to fund specific core staff and/or underwrite revenue expenditure, but total generally not more than 50% of annual turnover.
Category 5	Use of Government funding to fund specific core staff and/or underwrite revenue expenditure, but total generally not more than 50% of annual turnover.

In terms of timescales, *“Investing in Change”* specifies that the governing bodies of priority sports should be meeting these targets by 2006. We recommend that all other governing bodies work towards achieving these standards by 2008.

Performance Indicators

Governing bodies can use the performance indicators set out below to measure their progress towards financial independence.

INDICATOR	USE	FREQUENCY
Ratio of Exchequer funding to total turnover	- A ratio that is not declining or is rising makes the NGB more vulnerable to changes in Sports Council/Government funding policy - Allows the NGB to set targets for revenue generated from other sources	Annually
Revenue per member	Provides a valuable benchmark to assess the trend of revenue per member and allow comparison with other sports.	Quarterly
Reserves to costs ratio	Indicates the level of security available to the NGB should various sources of income be	Quarterly

⁴ Both *“Investing in Change”* and the *“Success Criteria/Model Framework”* can be downloaded from the UK Sport website (www.uksport.gov.uk)

INDICATOR	USE	FREQUENCY
	reduced • A ratio that is declining may indicate that reserves are being depleted or that costs are not being adequately controlled.	
Number of 'paid up' members	• Important in order to assess the success of any strategy to increase membership • If the number is static or declining this may indicate that the NGB has failed to make the membership offer sufficiently compelling. It may create financial problems in the future and indicate the sport is insufficiently attractive to new entrants	Quarterly

SALES & MARKETING PLAN

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